

BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

DEPT. OF TRANSPORTATION
DOCKET SECTION
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QA-10780

Joint Application of)
)
UNITED AIR LINES, INC.,)
DEUTSCHE LUFTHANSA, A.G.)
and)
SCANDINAVIAN AIRLINES SYSTEM)
)
for approval of and antitrust immunity)
for a Coordination Agreement)
under 49 U.S.C. §§ 41308 and 41309)
)

Docket OST 96- 1646-1

Joint Application of)
)
UNITED AIR LINES, INC.,)
and)
SCANDINAVIAN AIRLINES SYSTEM)
)
for approval of and antitrust immunity)
for an Alliance Expansion Agreement)
under 49 U.S.C. §§ 41308 and 41309)
)

Docket OST 96-1411-11

JOINT APPLICATION AND MOTION TO CONSOLIDATE OF UNITED AIR LINES, INC.,
DEUTSCHE LUFTHANSA, A.G., AND SCANDINAVIAN AIRLINES SYSTEM

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Dated: August 14, 1996

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Docket OST 96-1411

**JOINT APPLICATION AND MOTION TO CONSOLIDATE OF UNITED AIR LINES, INC.,
DEUTSCHE LUFTHANSA, A.G., AND SCANDINAVIAN AIRLINES SYSTEM**

United Air Lines, Inc. ("United"), Scandinavian Airlines System ("SAS") and Deutsche Lufthansa, A.G. ("Lufthansa") (collectively referred to as "the Joint Applicants") herewith file a Joint Application for approval and antitrust immunity for an agreement to coordinate their alliance activities (referred to herein as "the Coordination Agreement" and attached as Exhibit JA-1). Concurrently, pursuant to Rule 12 of the Department of Transportation's ("the Department") Rules of Practice, 14 C.F.R. § 302.12, the Joint Applicants hereby move to consolidate for decision (1) the accompanying Joint Application with (2) the application for approval of and antitrust immunity for the United/SAS Alliance Expansion Agreement currently pending in Docket OST 96-1411.

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The accompanying Joint Application for approval of the Coordination Agreement is complete. Accordingly, the Joint Applicants further request that the Department promptly issue a notice confirming that answers to the Application are due 21 days from the date of the Application.

I. MOTION TO CONSOLIDATE

The Joint Applicants move to consolidate because simultaneous consideration of the Coordination Agreement and the United/SAS Alliance Expansion Agreement is merited by (i) Departmental precedent in the Delta/Austrian/SABENA/Swissair proceeding, and (ii) the interest of the Department and all parties in administrative efficiency.

The United/SAS/Lufthansa Coordination Agreement parallels the Coordination Agreement submitted by Delta Air Lines, Austrian Airlines, SABENA and Swissair, and immunized by the Department by Order 96-6-33, in Docket OST-95-618. Like the Delta group's Coordination Agreement, the principal purpose of the United/SAS/Lufthansa Coordination Agreement is to enable the carriers to enter into three-way discussions and agreements to coordinate activities between and among themselves, and thereby to avoid the inefficiencies, risks and costs of coordinating a multi-party, global alliance through a series of bilateral discussions and agreements. See Joint Application of Delta et al (dated September 8, 1995), Exhibit 1D at 2; see also Exhibit JA-1 hereto at Article 2.2.

In the Delta proceeding, the Department considered and immunized simultaneously both the three intercarrier Cooperation Agreements and the four-party Coordination Agreement, effectively treating the Coordination Agreement as an integral part of the Cooperation

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Agreements. See Order 96-5-26 at 5. United, Lufthansa and SAS similarly intend for their Coordination Agreement to be an integral part of their respective alliances. United and Lufthansa have already been granted antitrust immunity for joint activities under their Alliance Expansion Agreement. Order 96-5-27. If the Department grants the pending United/SAS application, United, like Delta in its proceeding, would have more than one immunized alliance partner. Simultaneous consideration and approval of the Coordination Agreement among United and its alliance partners with the pending United/SAS application are thus similarly appropriate.

Consolidation for decision would also enable the Department to consider the Coordination Agreement and the United/SAS Alliance in the context of a global alliance of three carriers -- United, SAS and Lufthansa -- with coordinated and integrated route networks, operations and systems. Such a tripartite alliance is fully consistent with the Department's clearly established policy in favor of multinational global alliances that "benefit consumers by increasing service options and enhancing competition between airlines." Order 96-5-12 at 14.

Finally, administrative efficiency dictates that the Coordination Agreement be considered together with the United/SAS Alliance Expansion Agreement. There is substantial overlap in parties, issues and requisite analysis in the two proceedings. Given that the Department has already analyzed and immunized the United/Lufthansa agreement, approval of and immunity for the Coordination Agreement should follow from the Department's findings on the public interest benefits and the competitive effects of the United/SAS application. Approval of the

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United/SAS application would result in both alliances being immunized and would leave outstanding no issues with respect to the Coordination Agreement. In contrast, requiring the carriers to prosecute the United/SAS Agreement and the Coordination Agreement in separate dockets would simply delay their implementation of the alliances and create needless duplicative and time-consuming work for the Department's staff.

II. JOINT APPLICATION FOR APPROVAL AND ANTITRUST IMMUNITY

The Joint Applicants, United, Lufthansa and SAS, hereby apply, under 49 U.S.C. §§ 41308 and 41309, for approval of and antitrust immunity for the Coordination Agreement. Exhibit JA-1. The Joint Applicants request that antitrust immunity for activities undertaken pursuant to the Coordination Agreement be made effective no later than September 30, 1996, and remain in effect for a period of no less than five years. The Joint Application submitted herein is complete. Consequently, answers to the Application are due 21 days from the date of the Application. 14 C.F.R. Section 303.42(a).

A. THE COORDINATION AGREEMENT

The Coordination Agreement is a tripartite agreement among United, Lufthansa and SAS, three air carriers that have entered into long-term bilateral alliances beginning with the 1993 United/Lufthansa alliance. The Department recently approved and granted immunity from the U.S. antitrust laws to United and Lufthansa and their subsidiaries to enable them to enhance cooperation and integrate their services. Docket OST 96-1116, Order Nos. 96-5-12 and 96-5-27. A Joint Application seeking similar immunity for United and SAS is awaiting decision in Docket OST 96-1411. Only two answers were filed, and neither opposed

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immunity for the United/SAS Agreement. The next procedural steps are a reply, due August 19, and the tentative decision by the Department. In January 1996, the European Commission approved the alliance between Lufthansa and SAS, which, inter alia, created a joint venture between those carriers for air transport services between Germany and Scandinavia.

While these alliances permit bilateral activities among the three carriers, none contemplates joint activity among the three carriers to resolve common problems collectively, so as to achieve the full benefit of synergized operations. In recently approving and granting antitrust immunity to the Delta/Swissair/SABENA/Austrian Alliance Agreement, the Department approved and immunized a four-party Coordination Agreement among the four carriers allowing them to meet together to coordinate their activities. United, Lufthansa and SAS seek the ability to do the same through the instant Coordination Agreement.

The Joint Applicants will continue to rely on the bilateral alliances between United/Lufthansa and United/SAS and the antitrust immunity granted and requested in Dockets OST 96-1116 and OST 96-1411, respectively, principally to govern bilateral intercarrier coordination. The Coordination Agreement does not seek to amend the agreements underlying these alliances. The focus of this Application is approval and antitrust immunity for three-way coordination among the three alliance partners along the lines recently granted to Delta and its alliance partners. Orders No. 96-5-26 and 96-6-33.

The Joint Applicants believe that greater efficiency in operations, marketing and distribution would be facilitated and the benefits to the

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public enhanced by a tripartite coordination agreement allowing the parties, in a single forum, to explore improved commercial cooperation to further their goal of offering seamless global transportation by linking the carriers' route networks. Such cooperation between any two or among all three of the Joint Applicants would include, for example, joint United/Lufthansa/SAS advertising and marketing programs, joint fare promotions, joint bids for government and corporate travel accounts, joint revenue sharing on certain routes, and code-sharing and flight coordination between Lufthansa and SAS on transatlantic services. As discussed in the United/SAS and United/Lufthansa Joint Applications in Dockets OST 96-1116 and 96-1411, the parties are not able to effect a merger of their combined operations because of air carrier ownership laws in the United States and the European Union, and because of ownership and nationality provisions in bilateral agreements with third countries. Under the instant Coordination Agreement, they would continue to be independent companies, but could discuss and plan coordinated service over their route networks with a view to offering the public broader and more efficient travel options, permitting the three carriers to better serve the public and to compete effectively with other international carriers and carrier alliances.

Like the bilateral alliances to which the Joint Applicants are parties, this Coordination Agreement's multi-hub, multi-carrier network would be procompetitive and proconsumer, providing improved and expanded on-line services via linked networks in competition with other carriers and carrier alliances, such as Delta/Swissair/SABENA/Austrian, and Northwest/KLM. In addition, the Coordination Agreement is open to

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membership by additional carriers and carrier alliances, subject to obtaining necessary regulatory approvals. See Exhibit JA-1, Article 5.

As set forth in greater detail in Article 2 of the Coordination Agreement, the Agreement would permit the parties to:

- Exchange information regarding actions undertaken or to be undertaken by one or more parties or alliances within any of the areas of coordination listed below;
- Discuss the manner in which any action undertaken or to be undertaken by one or more parties or alliances within any of the areas of coordination relates to or should relate to actions undertaken or to be undertaken under any other alliance or the alliances within that area of coordination; and
- Agree on and coordinate actions within any area of coordination.

The enumerated areas of coordination are as follows:

- Route and schedule planning and coordination;
- Marketing, advertising, sales and distribution networks, staffs, programs, policies and systems;
- Branding/co-branding, product development and market research;
- Code sharing;
- Pricing, inventory and yield management;
- Revenue sharing and joint ventures;
- Procurement of goods and services;
- Obtaining and providing support services;
- Cargo services;
- Information systems and technologies and distribution channels;
- Frequent flyer programs;
- Financial reporting practices;
- Service levels and in-flight amenities;
- Provision of aircraft and ground equipment, technical and maintenance services;
- Sharing of airport facilities and services;
- Development and implementation of a model to calculate and share incremental benefits of the alliances; and
- Promoting common use of commuter carrier affiliates.

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See Exhibit JA-1, Article 2. As noted, the instant Coordination Agreement contemplates the same kinds of joint actions as the Delta/Swissair/SABENA/Austrian Coordination Agreement approved and immunized by Order 96-6-33.

B. THE PARTIES WILL NOT PROCEED WITH THE AGREEMENT WITHOUT IMMUNITY.

Because of the risk of challenge on antitrust grounds by competitors or other private parties, the parties are unwilling to enter into this Coordination Agreement or to undertake multilateral discussions and negotiations relating to such matters as service improvements, procurement and pricing, without antitrust immunity. The absence of a coordination agreement permitting such discussions and activities would cast substantial uncertainty on the relationships among the parties, resulting in cumbersome or duplicative efforts or inefficiencies. For example, United could be required to conduct two separate sets of discussions concerning the same subject matter, both with Lufthansa under the United/Lufthansa alliance and with SAS under the United/SAS alliance. The parties would be unable to pool their resources most effectively to maximize costs savings and public benefits.

While the parties consider the ability to act on a coordinated basis central to the delivery of superior service options to the traveling public, they are unwilling to undertake the potential risk and concomitant expense of an antitrust challenge. Because conversations with regard to subjects of even peripheral interest under the antitrust laws may be construed in an unfavorable light, at a minimum, the absence

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of immunity would have a substantial chilling effect on meaningful communications. Accordingly, the parties will not proceed with the contemplated multilateral discussions or cooperation unless the Department approves and immunizes the instant Coordination Agreement.

C. IMPLEMENTATION OF THE ALLIANCE AGREEMENT WOULD NOT SUBSTANTIALLY REDUCE OR ELIMINATE COMPETITION.

The Department has now approved and granted antitrust immunity to four international airline alliance agreements including the United/Lufthansa Agreement. KLM/Northwest, Order 93-1-11; United/Lufthansa, Order 96-5-27; Delta/Swissair/SABENA/Austrian, Order 96-6-33; American/Canadian, Order 96-7-21. The Department's Orders make clear that such alliances are in effect joint ventures that can, where market conditions allow, promote competition by offering consumers improved services and additional competitive choices for international travel. See, e.g., Order 96-5-26 at 19: "The pro-competitive effects of global alliances can be particularly evident in the case of the behind- and beyond-gateway markets where integrated alliances with coordinated connections, marketing, and services, can offer competition well beyond mere interlining." The appropriate antitrust analysis is well-established and, as demonstrated by the records in the United/Lufthansa and United/SAS proceedings, this Coordination Agreement is fully consistent with that analysis.

There are potentially five relevant markets from the point of view of antitrust analysis: (a) U.S.-Scandinavia and (b) U.S.-Germany, the U.S.-home country markets; (c) the U.S.-Europe market; (d) any overlapping nonstop city-pair markets; and (e) the behind- and beyond-

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gateway markets. Implementation of the Coordination Agreement would not reduce or impair competition in any of these markets.

The respective United/Lufthansa and United/SAS Applications to the Department described the current competitive environment in the U.S.-Germany and U.S.-Scandinavia markets. As shown therein, the parties operate no overlapping nonstop flights between the U.S. and Europe, except for the two U.S.-Frankfurt routes discussed below. United operates no flights between the U.S. and Scandinavia. SAS offers no nonstop flights between the U.S. and Germany. Lufthansa offers no nonstop flights between the U.S. and Scandinavia. Moreover, there are no nonstop fifth-freedom routes to or from the U.S. served by both Lufthansa and SAS.^{1/}

United and Lufthansa both provide nonstop service on two city-pair routes -- Chicago-Frankfurt and Washington-Frankfurt. In connection with the Department's approval of the United/Lufthansa alliance, United and Lufthansa agreed with the Department of Justice to exclude from the grant of antitrust immunity, with certain specified exceptions, coordination of pricing, inventory and yield management with respect to certain nonstop U.S. passengers in these two city-pairs in which the two carriers operate their own flights. Order 96-5-27.

The excluded activities in these two city-pair markets would also be excluded from the grant of antitrust immunity under the instant

^{1/} For a more complete discussion of operations between the U.S. and Scandinavia see the Joint Application of United and SAS submitted in Docket OST 96-1411. See also Docket OST 96-1116, Orders 96-5-12 and 96-5-27 discussing competition between the U.S. and Germany.

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Coordination Agreement (and all conditions relating to participation in IATA and O&D reporting would continue to be applicable). See Exhibit JA-1, Article 2.3. Thus, as with the United/Lufthansa and United/SAS alliances, the Coordination Agreement would not adversely affect competition in any city-pair market.^{2/}

As to the global market, the Department's conclusions in the Delta/Swissair/SABENA/Austrian proceeding and in the United/Lufthansa proceeding are equally applicable here: "U.S. consumers and airlines should be the major beneficiaries of this expansion and the associated increase in service opportunities." Order 96-5-26 at 19; see Order 96-5-12 at 17-18. Permitting coordination among United, Lufthansa and SAS should allow the parties to enhance benefits to millions of passengers in behind-gateway markets in the U.S. and Europe.

^{2/} In the U.S-Europe market, the addition of SAS to the United/Lufthansa alliance recently reviewed and immunized by the Department in Order 96-5-27 has only a marginal impact. Based on both seats and frequencies, the combined United/Lufthansa/SAS share is below that of other alliances such as Delta/Swissair/SABENA/Austrian and British Airways/USAir -- as well as the proposed American/British Airways alliance. See Exhibit JA-6 to the United/SAS Joint Application, Docket OST 96-1411. SAS has less than a 2% share of the transatlantic seats and only 2.2% of transatlantic frequencies. Using the data in Exhibit JA-6 to the United/SAS Joint Application, but substituting previously approved and immunized carrier alliances - Delta/Swissair/SABENA/Austrian, Northwest/KLM and United/Lufthansa - for the individual carrier members of those alliances, the addition of SAS to the United/Lufthansa alliance approved in Order 96-5-27 would add just two percentage points of transatlantic market share. This addition would result in a market HHI of 982 based on seats and 1000.75 based on frequency, an insignificant increase from the current HHI levels of 933.58 and 939.66, respectively.

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D. APPROVAL OF THE ALLIANCE AGREEMENT AND THE GRANT OF IMMUNITY WOULD FURTHER THE PUBLIC INTEREST AND PUBLIC POLICY.

Approval of the Coordination Agreement is consistent with the Department's international aviation policy. The U.S. has entered into "open skies" agreements with the Governments of Germany, Denmark, Norway and Sweden. As a result of these and similar international agreements, U.S. carriers are able to be more effective competitors in global markets. The instant Coordination Agreement is the type of joint venture which such initiatives were intended to encourage. Approval by the Department would provide reciprocal benefits to both the United States and its European partners.

Moreover, approval of the three-party Coordination Agreement would provide significant public benefits not otherwise obtainable, permitting the parties collectively to develop means to eliminate barriers to integrated transportation services, cost reductions and price reductions. The Coordination Agreement provides a unique and valuable opportunity for the parties to brainstorm, to forge improved methods, and to provide better services.

The Department's conclusions in the Delta/Swissair/SABENA/Austrian and United/Lufthansa proceedings are equally applicable here:

Integrated alliances can... offer a multitude of new on-line services to literally thousands of city-pair markets, on a global basis. Order 96-5-26 at 19; Order 96-5-12 at 17-18.

[T]hese alliances will benefit consumers by increasing international service options and enhancing competition between airlines, particularly for traffic to or from cities behind

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major gateways. By stimulating traffic, the increased competition and service options will expand the overall international market and increase overall opportunities for the traveling public and the aviation industry. Order 96-5-26 at 19; see Order 96-5-12 at 18.

Consistent with the Department's approval of the coordination agreement among Delta/Swissair/SABENA/Austrian, the instant tri-party Coordination Agreement should be approved on the grounds that it is consistent with U.S. policy and in the public interest. Where, as here, an agreement between carriers is "not adverse to the public interest and is not in violation of [the Transportation Code]. . .," 49 U.S.C. § 41309(b), approval is appropriate. Further, the Department may exempt from the antitrust laws an agreement approved under section 41309, if it finds that the public interest requires such an exemption. 49 U.S.C. § 41308.

The instant case falls squarely within those statutory provisions. The Coordination Agreement will increase and enhance competition among global alliance networks while benefiting U.S. airlines and consumers. Moreover, the agreement will not substantially reduce competition for air services in any market. Accordingly, the Coordination Agreement should be approved and exempted from the antitrust laws pursuant to sections 41309 and 41308.

E. RESPONSE TO REQUEST FOR ADDITIONAL INFORMATION

In the Delta/Swissair/SABENA/Austrian proceeding, the Department requested the applicants to provide certain categories of information. Order 95-9-27. United, Lufthansa and SAS have already furnished these same categories of information in connection with their

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recent Joint Applications in Dockets OST 96-1116 and 96-1411, seeking approval and antitrust immunity for the United/Lufthansa Alliance Expansion Agreement and the United/SAS Alliance Expansion Agreement. Therefore, for purposes of the instant Joint Application, the parties reaffirm and incorporate by reference their written responses to the twelve information items which are contained in the Joint Applications submitted in those dockets (Items A through L).^{3/} None of the Joint Applicants is aware of any additional documents responsive to Item B which relate specifically to the instant Coordination Agreement.

The Joint Applicants do not object to interested parties in this docket having access to documents and data (Items A, B and G) filed in Dockets OST 96-1116 and OST 95-1411 pursuant to motions for confidential treatment under Rule 39, on condition that such parties file or have filed Confidentiality Affidavits and are subject to the terms applicable in these proceedings.^{4/}

CONCLUSION

For the foregoing reasons, United, Lufthansa and SAS request that the Department approve their Coordination Agreement under 49 U.S.C. § 41309 and exempt United, Lufthansa and SAS from the antitrust laws pursuant to 49 U.S.C. § 41308, for a period of no less than five years in duration, to allow the Joint Applicants to proceed with the three-

^{3/} See United/Lufthansa Joint Application at 37-46; United/SAS Joint Application at 44-52.

^{4/} Confidentiality affidavits filed in Dockets OST 96-1116 and OST 96-1411 should be deemed by the Department to be applicable to this proceeding as well, thus permitting persons to whom they pertain to gain access to the documents in the context of the instant proceeding, without the need for further filings by such persons.

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party Coordination Agreement. Further, the Joint Applicants request that consideration of the Coordination Agreement be consolidated for decision with the United/SAS Alliance Expansion Agreement now pending in Docket OST 96-1411.

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Dated: August 14, 1996

COORDINATION AGREEMENT

This Coordination Agreement dated as of August 9, 1996 (the "Coordination Agreement") is made and entered into by and among

Deutsche Lufthansa, A.G., a corporation formed under the laws of Germany with its principal place of business in Cologne, Germany, and its subsidiaries, including Lufthansa Cargo, A.G. (collectively, "LH");

Scandinavian Airlines System, a consortium formed under the laws of Denmark, Norway and Sweden, with its principal place of business in Stockholm, Sweden, and its subsidiaries and its affiliate SAS Commuter (collectively, "SAS"); and

United Air Lines, Inc., a corporation formed under the laws of Delaware with its principal place of business in Elk Grove Township, Illinois ("UA").

In this Coordination Agreement, LH, SAS and UA may each be individually referred to as "a Party" and may be collectively referred to as "the Parties."

WITNESSETH

WHEREAS, UA and LH, beginning in 1993, have agreed to a series of measures intended to establish a long-term alliance between them, linking their route networks and enabling them to market globally integrated air transportation services in competition with other carriers and carrier alliances while remaining independent companies ("the UA/LH Alliance");

WHEREAS, UA and SAS, beginning in 1995, have also agreed to a series of measures intended to establish a long-term alliance between them, linking their route networks and enabling them to market globally integrated air transportation services in competition with other carriers and carrier alliances while remaining independent companies ("the UA/SAS Alliance");

WHEREAS, the United States Department of Transportation (the "U.S. DOT") has granted UA and LH immunity from the U.S. antitrust laws, subject to certain conditions, to facilitate the integration of UA's and LH's route networks, to enhance the efficiency of their operations and to facilitate their ability to provide a seamless transportation service to the public;

WHEREAS, UA and SAS have jointly applied to the U.S. DOT for similar immunity from the U.S. antitrust laws to facilitate the integration of UA's and SAS's route networks, to enhance the efficiency of their operations, and to facilitate their ability to provide a seamless transportation service to the public;

WHEREAS, LH and SAS, since 1995, have sought to establish an integrated air transport system based on a comprehensive set of long-term commercial, marketing and operational relationships

which seek to promote operational integration, while maintaining their distinct corporate identities ("LH/SAS Alliance") and, on January 16, 1996, such alliance received from the European Commission an exemption pursuant to Article 85(3) of the Treaty of Rome;

WHEREAS, to expand exponentially the benefits available to the traveling and shipping public from the UA/LH Alliance, UA/SAS Alliance, and LH/SAS Alliance (herein referred to individually as "an Alliance" and any two or more of which as "Alliances") and to facilitate further efficiency-enhancing coordination of their services on a global basis, LH, SAS and UA now desire to create a system for coordination between and among them that will enable the Parties to discuss and coordinate between and among themselves the activities they have undertaken or plan to undertake in establishing and implementing any or all the Alliances; and

WHEREAS, the Parties intend to seek appropriate antitrust review, including immunity from U.S. antitrust laws pursuant to 49 U.S.C. §§ 41308 and 41309 without which the Parties will not proceed with the implementation of this Coordination Agreement as contemplated herein;

NOW, THEREFORE, in consideration of the promises, mutual covenants and agreements herein contained, the Parties agree to enter into this Coordination Agreement under the terms and conditions set forth herein.

ARTICLE 1. COORDINATION PRINCIPLES

- 1.1 The Parties shall coordinate, facilitate, and implement their Alliances in such manner as they mutually deem appropriate in accordance with the following key principles:
 - 1.1.1 The Parties shall seek to provide air transport services and related customer service at the highest levels of efficiency and service commercially feasible.
 - 1.1.2 The Parties shall seek to maximize efficiencies within and among their respective route networks through coordination among and between themselves and the Alliances.
 - 1.1.3 The Parties shall seek to maximize profitability through coordination of routes, schedules and resources to minimize costs such as delays, needless expenses, and inefficient allocation of resources.
 - 1.1.4 The Parties shall seek to capture the efficiencies that stand to be gained through the creation of a single global network as if the Parties were to have merged and operate as a single firm.

- 1.1.5 The Parties shall abide by the terms of the Alliances and any modifications or amendments of, or subsidiary agreements thereto.
- 1.1.6 The Parties shall remain independent legal entities.
- 1.2 Coordination pursuant to this Coordination Agreement shall facilitate and complement the Parties' coordination and integration of their air transportation services occurring pursuant to the Alliances and the various arrangements and agreements underlying those Alliances. Nothing in this Coordination Agreement shall alter or incorporate any rights, responsibilities, obligations or remedies of the Parties under any other contract or agreement among the Parties or between any of them.

ARTICLE 2 AREAS OF COORDINATION

- 2.1 The Parties agree that the following shall constitute Areas of Coordination:
 - 2.1.1 Route and schedule planning and coordination throughout their global route networks;
 - 2.1.2 Establishment and management of marketing, advertising, sales and distribution networks, staffs, programs, policies and systems, including but not limited to the creation of joint sales offices, and coordination of travel agent and other commissions, and development of joint bids for government and corporate contracts;
 - 2.1.3 Branding/co-branding (including the creation of logos and corporate markings), product development (including but not limited to interior design, decoration and cabin layout, in-flight entertainment, amenities and services, and passenger ground services), and market research.
 - 2.1.4 Code sharing;
 - 2.1.5 Pricing, inventory and yield management, including but not limited to the development, coordination and offering of any and all fare products, group bids, auxiliary service charges and collection policies, revenue management methods and procedures, and inventory management;
 - 2.1.6 Sharing revenues received by one or more Parties for air transportation services on certain routes which two or more Parties may select from time to time, and the development, implementation and management of joint ventures, if any, that two or more Parties may create;

- 2.1.7 Procurement of goods and services, including station and ground handling services, general goods and services, field and station supplies, catering, crew uniforms, information technology products and services, fuel and maintenance;
- 2.1.8 Obtaining and providing support services, including passenger and ramp services, training, and catering.
- 2.1.9 Creation, management, operation, marketing and distribution of cargo services, including development of cargo products, coordinated use of cargo facilities and terminals, ground handling, coordination of trucking and RFS services, and coordination of cargo services in any of the substantive areas specified in this Article 2.1 (e.g., cargo pricing, inventory and yield management);
- 2.1.10 Integration, design, and development of information systems (including inventory, yield management, reservation, ticketing, distribution and other operational systems), information technologies, and distribution channels;
- 2.1.11 Coordination and integration of frequent flyer programs;
- 2.1.12 Harmonization of financial reporting practices, including revenue and cost accounting practices;
- 2.1.13 Harmonization of service levels and in-flight amenities;
- 2.1.14 Provision of aircraft and ground equipment, and technical and maintenance services among the Parties at appropriate locations;
- 2.1.15 Sharing of facilities and services at airports served by one or more Parties;
- 2.1.16 Development and implementation of a model for calculating, monitoring and sharing the incremental benefits from the Alliances; and
- 2.1.17 Promoting common use of the Parties' commuter carrier affiliates.
- 2.2 Subject to the key principles set forth in Article 1.1 above, the Parties' obligations under the Alliances, and their respective commercial goals, all Parties or any subgroup thereof shall be entitled to:
 - 2.2.1 Exchange information regarding any actions undertaken or to be undertaken by one or more Parties or Alliances within any Area of Coordination;

2.2.2 Discuss the manner in which any action undertaken or to be undertaken by one or more Parties or Alliances within any Area of Coordination relates or should relate to actions undertaken or to be undertaken by any other Party, any other Alliance or the Alliances within that Area of Coordination; and

2.2.3 Agree on and coordinate actions within any Area of Coordination;

however, this provision shall in no way obligate, bind or require any Party to participate in any such exchange, discussion, agreement or coordination.

2.3. Notwithstanding the foregoing, the Parties shall not exchange information, discuss, agree upon or coordinate:

2.3.1 the management of their respective interests in the CRS systems owned and operated by Galileo International Partnership and AMADEUS Global Travel Distribution, S.A.; or

2.3.2 on any subject or in any manner that would cause any Party to contravene (i) any law, regulation or order of any government authority or court having jurisdiction over such Party; or (ii) the conditions of any grant of authority or immunity by any government authority, including U.S. DOT Order 96-5-27 granting antitrust immunity to LH and UA and any other order that may in the future grant antitrust immunity to any of the Alliances.

ARTICLE 3 ADMINISTRATION

To fulfill the functions set forth in Article 2 above and to administer coordination of the Alliances, the Parties agree as follows.

3.1 Each Party shall appoint one or more representatives, who shall meet in person or by telephone from time to time with such frequency as the Parties may agree.

3.2 The representatives appointed pursuant to Article 3.1 may designate any working groups and committees as may be necessary to achieve effective coordination in the areas set forth in Article 2.

3.3 The Parties may appoint different representatives for coordination of different functions or subject matters.

ARTICLE 4 IMPLEMENTATION AND CONDITIONS

- 4.1 The Parties shall make a common approach to U.S. and other relevant regulatory authorities for the purpose of obtaining all regulatory approvals necessary to this Coordination Agreement.
- 4.2 This Coordination Agreement shall take effect when the Parties agree that they have obtained all requisite clearances, including the approval of the agreement and the immunization of the Parties from liability under the antitrust laws pursuant to 49 U.S.C. §§41308 and 41309 for all activities provided for in this Agreement, subject to conditions, if any, that are acceptable to all Parties.

When one Party believes that all requisite clearances have been obtained, that Party shall notify the other Parties pursuant to Article 7, and the other Parties shall advise under Article 7 within 24 hours whether or not each concurs. If all Parties concur, the Agreement shall take effect upon the receipt of the concurrence of the third Party.

- 4.3 In the event that this Coordination Agreement has not taken effect by December 31, 1996, any Party may declare this Coordination Agreement null and void upon written notice to the other Parties.

ARTICLE 5 INCLUSION OF OTHER PARTIES AND ALLIANCES

- 5.1 The Parties will be open to opportunities for inclusion of other carriers or carrier alliances as parties to this Coordination Agreement. Admission of such parties shall take place only by unanimous consent of the Parties and shall not become effective until all necessary regulatory approvals are obtained pursuant to Article 5.2.
- 5.2 If the Parties unanimously elect to include one or more additional carriers or carrier alliances as parties to the instant Coordination Agreement, the Parties shall amend the instant agreement (including, to the extent the Parties deem appropriate, Article 6) pursuant to Article 11 hereof to provide for inclusion of such additional carrier(s) or carrier alliance(s) and the Parties shall together make a common approach to U.S. and other relevant regulatory authorities for the purpose of obtaining all regulatory approvals necessary for such amendment.

ARTICLE 6 DURATION AND TERMINATION

- 6.1 This Coordination Agreement shall remain in effect until terminated in accordance with Article 6.2 hereof.

6.2 This Coordination Agreement shall be terminated:

- (i) simultaneously with the termination of any Alliance; or
- (ii) in the event that there is no termination of any Alliance, one year after a Party has served written notice of its intent to terminate this Coordination Agreement on the other Parties pursuant to Article 7.

ARTICLE 7 NOTICES

Notices required or permitted under this Coordination Agreement shall be in writing and communicated to the following persons:

For LH:

Deutsche Lufthansa, AG
Lufthansa Basis
FRACJ
60546 Frankfurt
Germany
Attn: General Counsel

For SAS:

Scandinavian Airlines System
Frösundaviks Allé 1
Solna. S-195 87
Stockholm, Sweden
Attn: Vice President and General Counsel

For UA:

United Air Lines, Inc.
P.O. Box (EXOPO) 66100
Chicago, Illinois 60666
USA
Attn: Executive Vice President Corporate Affairs and General Counsel

ARTICLE 8 NO CREATION OF FINANCIAL OBLIGATIONS

Except as set forth in Article 9, nothing in this Coordination Agreement shall give rise to any financial obligation by any Party to any other Party, nor interfere or limit the rights or obligations that any Party may have to or be owed by another Party by virtue of other agreements existing between them. The sole remedy available to a Party or Parties for the nonfulfillment or breach of a covenant contained herein shall be the termination of the Coordination Agreement pursuant to Article 6.

ARTICLE 9 GENERAL INDEMNIFICATION

As between any two Parties to this Coordination Agreement, activities falling within the scope of this Coordination Agreement, but not otherwise covered by any other agreement between those two Parties, will be deemed to be within the scope of and covered by the indemnification clause[s] of the basic agreement underlying the alliance between those two Parties.

ARTICLE 10 NO THIRD-PARTY BENEFICIARIES

This Coordination Agreement is for the benefit of the Parties and is not intended to confer any rights or benefits on any third party.

ARTICLE 11 AMENDMENTS

This Coordination Agreement may be modified only by a written instrument duly executed by or on behalf of each Party.

ARTICLE 12 GOVERNING LAW

This Coordination Agreement shall be governed by the laws of New York, without reference to the choice of law provisions thereof, provided, however, that this Article does not modify or affect the governing law provisions in any of the agreements underlying the Alliances or any decision as to what laws should govern those agreements or any disputes that may arise with respect to those agreements.

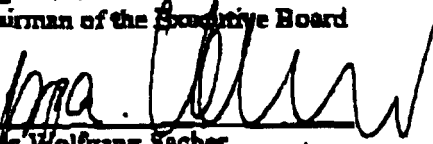
ARTICLE 13 COUNTERPARTS

This Coordination Agreement may be executed in one or more counterparts all of which taken together will constitute one and the same instrument.

DEUTSCHE LUFTHANSA, A.G.



Jürgen Weber
Chairman of the Executive Board



Hans Wolfgang Sacher
General Counsel

SCANDINAVIAN AIRLINES SYSTEM

Vegge Sørensen
Senior Vice-President, Business Systems Division

UNITED AIR LINES, INC.

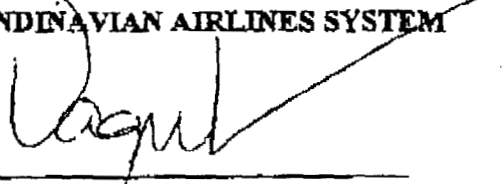
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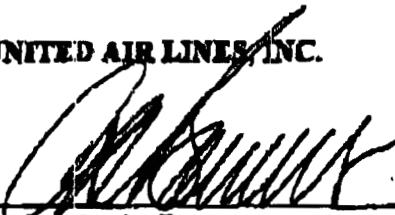
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Vagn Sørensen
Senior Vice-President, Business Systems Division

UNITED AIR LINES, INC.



Christopher D. Bowers
Senior Vice-President - International

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Joint Application and Motion to Consolidate of United Air Lines, Inc., Scandinavian Airlines System and Deutsche Lufthansa A. G. to the persons on the attached Service List by causing a copy to be sent via first class mail, postage prepaid.



Michael F. Goldman

August 14, 1996

United/Lufthansa/SAS Jt. Application

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